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Department of the Treasury
Internal Revenue Service

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Mutual Fund Distributions

For use in preparing
1985 Returns

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Introduction

This publication discusses the federal income tax treatment of distributions paid or allocated to an individual shareholder of a mutual fund. A mutual fund is generally created by "pooling" funds of small investors to allow them to take advantage of a diversity of investments.

Form 1099–DIV. A mutual fund will send you a Form 1099–DIV, *Statement for Recipients of Dividends and Distributions,* or a substitute form containing substantially the same language, to tell you what you must report or take into account on your income tax return.

The form will show:

1) The amount that you must report as ordinary dividends,
2) The capital gain distributions that you must report as a long-term capital gain,
3) The nontaxable distributions (return of capital) that usually will reduce your stock basis,
4) The foreign tax paid that you may claim as a deduction or credit (see *Foreign Tax Deduction or Credit,* discussed later), and
5) Any federal income tax withheld, such as the 20% tax on reportable payments under backup withholding.

A comprehensive example of distributions made by a mutual fund with illustrations of Form 1099–DIV and Form 1040 appears at the end of this publication.

Substitute payments. If your broker transfers your securities for use in a short sale and receives on your behalf a substitute payment of $10 or more, your broker must furnish you with a statement. This statement may be made on Form 1099–MISC, *Statement for Recipients of Miscellaneous Income,* or a substitute form containing substantially the same language.

Substitute payments are payments in lieu of dividends, tax-exempt interest, or other items that may be specified in the regulations. If the substitute payment received on behalf of an individual is an ordinary dividend, Form 1099–DIV should be used. However, Form 1099–MISC is used to report a substitute payment in lieu of a capital gain dividend, an exempt-interest dividend, a return of capital distribution, or a dividend on which a foreign tax credit may be claimed. The total amount of these substitute payments is reported as "Other Income" on your tax return.

Money market funds. The rules in this publication apply to money market funds. However, when you redeem or sell your shares, the proceeds generally equal your investment in the contract. Also, the value of the shares generally does not change.

Tax Treatment of Distributions

There are several kinds of distributions that you as a shareholder may receive from a mutual fund. They include ordinary dividends, capital gain distributions, exempt-interest dividends, and return of capital (nontaxable) distributions. In addition, the fund may allocate to you an undistributed capital gain.

Ordinary Dividends

An ordinary dividend is a distribution by a mutual fund out of its earnings and profits. You include ordinary dividends (***taxable dividends***) that you receive from a mutual fund as ordinary income on your individual income tax return.

Ordinary dividends are the most common type of dividends. Any dividend you receive should be considered an ordinary dividend unless the mutual fund statement says otherwise. See also *Reinvestment of Dividends,* later.

Dividend exclusion. Exclude from your gross income the first $100 of ***qualifying*** dividends you receive. You do not have to itemize deductions to claim the dividend exclusion. If you file a joint return, exclude up to $200, regardless of which spouse received the dividends. Qualifying dividends are shown in box 2 of Form 1099–DIV.

Example. John Brown received $120 of ordinary dividends from corporate stock he owns. His wife Mary received $80 of ordinary dividends from a mutual fund she owns separately. Their combined qualifying dividend income is $200. On their joint return, they will exclude $200. On separate returns, John will exclude only $100, and Mary will exclude $80.

Community property states. If you receive dividend income that is community income under the laws of the state where you and your spouse are domiciled, one-half of the income is considered to be received by each of you. You and your spouse may each exclude from income up to $100 of qualifying dividends on separate returns. On a joint return, you may exclude up to $200, regardless of which spouse owns the stock, and regardless of whether the income is community income.

If the dividends are separate income and you and your spouse file separate returns, each of you must report your separate income and exclude up to $100 of qualifying dividends.

Share certificate in two or more names. If two or more persons, such as you and your spouse, hold stock as joint tenants, tenants by the entirety, or tenants in common, dividends on that stock are considered received by each of you to the extent that you are entitled under local law to a share of the dividends.

Nonqualifying dividends. Some distributions of ordinary dividends from mutual funds may not be fully eligible for the $100 ($200) dividend exclusion. However, the total distribution must be included on your return as a dividend. The mutual fund will send you a statement showing either the percentage of the ordinary dividend payment that is eligible for the $100 ($200) dividend exclusion or the specific dollar amount that is eligible for the exclusion. Nonqualifying dividends are shown in box 3 of Form 1099–DIV.

The dividend exclusion does not apply to capital gain distributions, return of capital distributions, or undistributed capital gain distributions. The exclusion generally does not apply to money market fund dividends.

Nonresident alien. A nonresident alien generally may not take the dividend exclusion unless the dividends are effectively connected with the conduct of a trade or business in the United States.

For details on the dividend exclusion, see Publication 550, *Investment Income and Expenses.*

Capital Gain Distributions

These distributions are paid by mutual funds from their net realized long-term capital gains. The mutual fund statement will tell you the amount you are to report as a capital gain distribution. Report capital gain distributions as long-term capital gains on your return regardless of how long you have owned the stock in the mutual fund. These distributions do not qualify for the dividend exclusion.

Undistributed capital gains. Some mutual funds keep their long-term capital gains and pay taxes on those amounts. You must report as long-term capital gains any amounts that the mutual fund allocated to you as capital gain

Where to Report Distributions from Mutual Funds on Form 1040[1]

Start here.
Follow each step carefully.

Are total distributions from mutual funds, as well as other dividends from all sources, $400 or less?

NO → Report all distributions on Schedule B, line 4, and complete lines 5 through 10.

YES ↓

Distributions made by a mutual fund consist of these items:[2]

1. **Ordinary Dividends**[3] whether qualifying for the dividend exclusion or not. (Boxes 2 and 3, Form 1099-DIV) → Report this amount on line 9a, Form 1040. Your dividend exclusion is shown on line 9b as explained on page 1 of this publication.

And/or

2. **Capital Gain Distributions**[3] (Box 5, Form 1099-DIV) → Are there any other Schedule D transactions?
   - YES → Report this amount on line 15, Schedule D.[5]
   - NO → Report 40% of this amount on line 14, Form 1040.[5]

And/or

3. **Nontaxable Distributions**[4] (Return of Capital) (Box 6, Form 1099-DIV) → Is this amount greater than your stock's adjusted basis? (See page 3, Return of Capital (Nontaxable) Distributions)
   - NO → Reduce your stock's adjusted basis by this amount and make no entry on your tax return.
   - YES ↓ Was the mutual fund held over six months, or one year for assets acquired before June 23, 1984?
     - YES → Report the excess in Part III of Schedule D.
     - NO → Report the excess in Part II of Schedule D.

Report the amounts shown on your Form 1099-DIV on your tax return by following items 1, 2, and 3.

[1]You may be able to file Form 1040A if you do not have capital gain or nontaxable distributions. See the instructions for Form 1040A.
[2]Exempt-interest dividends are not reported on Form 1099–DIV.
[3]Defined on page 1.
[4]Defined on page 3.
[5]If the fund retained the dividend and paid a tax on it, you must still report the dividend as a long-term capital gain. However, you may claim a credit for the tax paid, on line 63, Form 1040.

distributions, even though you did not actually receive them.

If the fund has paid a tax on the capital gain, you are allowed a credit for the tax, since it is considered paid by you. The fund will send you Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains*, showing the amount of tax paid. Take this credit by entering the amount of tax shown on Form 2439 on line 63, Form 1040. Attach copy B of Form 2439 to your return.

Increase your basis in the stock by the difference between the amount of undistributed capital gain that you report and the amount of the tax paid for you by the fund. Keep Copy C of Form 2439 as part of your records to show increases in the basis of your stock.

Exempt-Interest Dividends

A mutual fund may pay exempt-interest dividends to its shareholders if it meets certain requirements. These dividends are paid from tax-exempt interest earned by the fund. Since the exempt-interest dividends distributed keep their tax-exempt character, you do not include them in income. The mutual fund will send you a statement within 45 days after the close of its tax year showing the amount of your exempt-interest dividends. Exempt-interest dividends are not shown on Form 1099–DIV.

Return of Capital (Nontaxable) Distributions

A distribution that is not out of earnings and profits is not taxed as an ordinary dividend. It is a return of your investment, or capital, in the stock of the mutual fund. Sometimes these distributions are called tax-free dividends or nontaxable distributions. However, the distributions may be fully or partly taxable as capital gains, or fully nontaxable. A return of capital distribution reduces your basis (explained later) in the stock but becomes taxable when your basis in the stock is fully recovered. If a return of capital distribution, when added to other such distributions received in the past, is more than your basis in the stock, you must report the excess on your tax return as a capital gain. Whether it is a long-term or short-term capital gain depends on how long you held the stock.

Example. You bought stock in a mutual fund in 1982 for $12 a share. In 1983 you received a return of capital distribution of $1 a share. You reduced your basis in the stock by the amount received, to an adjusted basis of $11. In 1984 you received a return of capital distribution of $2 and further reduced your basis in the stock to $9. In 1985 you received a return of capital distribution of $1.50. Your basis is now reduced to $7.50. It is not likely that the return of capital distributions from the mutual fund will be more than your adjusted basis in the stock, but if it happens, you will report the excess as a long-term capital gain, since you held the stock for more than one year. (If the stock was acquired after June 22, 1984, then the excess would be treated as long-term capital gain if the stock was held for more than six months.)

Reinvestment of Dividends

Most mutual funds permit shareholders to automatically reinvest dividends, including capital gain and other distributions, in more shares of stock in the fund through a dividend reinvestment plan. Instead of receiving dividends in cash, your dividends are used to purchase additional full or fractional shares of the fund. You must report the reinvested dividends as income, just as you would report them if you received them in cash. The additional shares have a basis equal to the amount of dividends reinvested.

Foreign Tax Deduction or Credit

Your mutual fund may choose to allow you to claim a deduction or credit for the taxes it paid to a foreign country or U.S. possession. The fund must notify you no later than 45 days after the close of its tax year.

The notice must include your part of foreign taxes paid to each country or possession and the part of the dividend that represents income derived from sources within each country or possession.

You must complete Form 1116, *Computation of Foreign Tax Credit*, if you choose to take the credit for income tax paid to a foreign country. In some cases, however, it may be to your benefit to treat the tax as an itemized deduction on Schedule A (Form 1040).

For more information on claiming a foreign tax deduction or credit, see Publication 514, *Foreign Tax Credit for U.S. Citizens and Resident Aliens*.

Sales, Exchanges, and Redemptions

When you sell, exchange, or redeem your mutual fund shares, you generally will have a taxable gain or a deductible loss. The amount of the gain or loss is the difference between your adjusted basis in the shares and the amount you realize from the sale, exchange, or redemption.

A sale generally is a transfer of stock for money only. An exchange is a transfer of stock in return for other stock. A redemption occurs when a fund reaquires its stock. Sales, exchanges, and redemptions are treated as taxable sales of capital assets.

Exchange of shares in one mutual fund for shares in another mutual fund. You may be able to exchange shares in one mutual fund for shares in another mutual fund that has the same distributor or underwriter without paying an additional sales charge. You report any gain or loss on the investment in the original shares as a capital gain or loss in the year in which the exchange occurs. Add any service charge or fee paid in connection with an exchange to the cost of the shares acquired, unless the fee was automatically deducted from the proceeds and not paid separately.

A unit investment trust plan generally is a plan that allows you to make either regular monthly or lump-sum payments to a bank custodian who buys designated mutual fund shares and holds them for you. Under such a plan, you are treated as the owner of the mutual fund shares and the bank custodian acts in your name. Then, if you ask for your shares and they are delivered to you, no gain or loss will be recognized until you sell or exchange them.

Year-end sales. A cash basis taxpayer who sells stock at the end of the tax year at a gain, but does not receive payment until the following tax year, has made an installment sale of the stock. The gain is included in income in the tax year the payment is received. However, the taxpayer may elect out of the installment method and include the gain in the year of the sale.

Example. On December 31, 1984, you sell 100 shares of stock at a gain. However, you do not receive payment until January 4, 1985. You use the cash method of accounting to figure your income. The sale of stock is an installment sale and the gain is includible in 1985. However, you may elect out of the installment method and include the gain in 1984.

Information returns. Brokers must report to the Internal Revenue Service the proceeds from sales, exchanges, or redemptions. Brokers must give each of their customers a written statement with that information by January 31 of the year following the calendar year in which the transaction occurred. Form 1099–B, *Statement for Recipients of Proceeds from Broker and Barter Exchange Transactions*, or a substitute Form 1099–B, may be used for this purpose. You report the total amount of sales shown on Forms 1099–B (or their substitute) on Schedule D (Form 1040), *Capital Gains and Losses and Reconciliation of Forms 1099–B*, along with your other gains and losses. Parts I and VII must be completed if you receive a Form 1099–B (or substitute).

The term "broker" includes a mutual fund, an underwriter of the mutual fund, or an agent for the mutual fund, any of whom stands ready to redeem or repurchase shares in such mutual fund.

No information return is required if the mutual fund computes its current price per share for purposes of distributions, redemptions, and purchases so as to stabilize the price per share at a constant amount that is close to its issue price or the price at which it was originally sold to the public.

Note. You must provide the broker with your correct taxpayer identification number (TIN). If you fail to provide your TIN, you may be liable for a penalty of $50 for each such failure. In addition, a broker is required to withhold tax at a rate of 20% on the gross proceeds of a transaction, unless a TIN is furnished in the required manner.

Basis of Stock

If you sell, exchange, or redeem your stock in a mutual fund, it is important that you know the original basis and adjusted basis of your stock to determine your gain or loss.

When you buy or sell shares in a fund, keep the confirmation statements you receive. The statements show the price you paid for your shares in the fund and the price you received for your shares when you sold, exchanged, or redeemed them. The information from these statements will help you figure your basis in the fund.

If you participate in an automatic reinvestment plan, keep the statements that show each date, amount, and number of full or fractional shares purchased. The amount of dividends used to purchase each full or fractional share is the cost basis for each share purchased.

Cost as basis. The original basis of your mutual fund stock is usually its cost or purchase price. The purchase price includes any commissions paid for the purchase.

Example. You bought 100 shares of stock for $10 a share in Fund A for $1,000 plus a $100 commission you paid to the broker for the purchase. Your cost basis for each share of stock is $11 ($1,100 ÷ 100).

Note. Stock that was acquired by gift or inheritance requires the use of a basis other than cost, and is explained below. In certain situations, you may use an average cost basis for sales of mutual fund shares. See *Identifying Shares of Stock*, later.

Stock Acquired by Gift

To determine your original basis of stock in a mutual fund you acquired by gift, you must know its adjusted basis to the donor, its fair market value at the time of the gift, and the amount of any gift tax paid on the gift of the stock.

General rule for determining value. The fair market value of a share in a mutual fund you acquired by gift after 1954 is the public redemption price (commonly known as the "bid price") at the time the gift was made. If you cannot determine the public redemption price in effect at the time of the gift, use the last public redemption price quoted by the fund for the date of the gift. If no public redemption price is quoted for the date of the gift, use the last public redemption price quoted by the fund for the first day preceding the date of the gift for which there is a quoted price.

Fair market value less than donor's adjusted basis. If the stock was given to you after 1920 and its fair market value at the time of the gift was less than the adjusted basis to the donor at the time of the gift, your basis for ***gain*** on its sale or other disposition is the same as the donor's adjusted basis. Your basis for ***loss*** is its fair market value at the time of the gift. If you use the basis for determining gain and figure a loss, and then use the basis for determining a loss and figure a gain, you will have neither a gain nor a loss.

Example. You are given a gift of mutual fund stock that has an adjusted basis of $10,000 at the time of the gift. The fair market value of the stock at the time of the gift is $9,000. You later sell the stock for $9,500. The basis for determining a gain is $10,000, so there is no gain. There also is no loss, since the basis for determining a loss is $9,000. In this situation, you have neither a gain nor a loss.

Fair market value more than donor's adjusted basis. If the stock was given to you after 1920 and its fair market value at the time of the gift was more than the donor's adjusted basis at the time of the gift, your basis for gain or loss on its sale or other disposition is the donor's adjusted basis at the time of the gift, increased by all or a part of any gift tax paid on the gift depending on the date of the gift. The amount of gift tax that increases the basis of the gift is determined as follows:

1) For gifts made on or after September 2, 1958, but ***before 1977,*** the basis of the gift is increased by the amount of gift tax paid on the gift, but the basis cannot be more than the fair market value of the gift at the time of the gift; and
2) For gifts made ***after 1976,*** the increase in the basis for gift taxes paid on the gift is an amount determined as follows:

$$\text{Gift tax paid} \times \frac{\text{Net increase in value of gift}}{\text{Amount of gift}} = \text{Amount of increase in basis for gift tax paid}$$

The net increase in value of the gift is the excess of the fair market value of the gift over the donor's adjusted basis just before the gift. The basis of the gift may not be more than the fair market value of the property at the time of the gift.

Example 1. You were given stock in Fund A in 1968. At the time of the gift, the stock had a fair market value of $21,000 and its adjusted basis to the donor was $20,000. The donor paid a tax of $500 on the gift. Your basis for gain or loss is $20,500, the donor's adjusted basis plus the amount of gift tax paid on the gift.

Example 2. Assume the same facts as in Example 1, except that the gift tax paid was $1,500. Your basis is $21,000, the donor's adjusted basis plus the gift tax paid on the gift, but limited to the fair market value of the stock at the time of the gift.

Example 3. You were given stock in Mutual Fund B in 1977. At the time of the gift, the donor's adjusted basis in the stock was $34,400 and the fair market value was $43,000. A gift tax of $2,200 was paid on the gift. The net appreciation in value of the gift was $8,600 ($43,000−$34,400). The increase in the basis of the stock for the gift tax paid is $440 figured as follows:

$$\$2{,}200 \times \frac{\$\ 8{,}600}{\$43{,}000} = \$440$$

Your adjusted basis in the stock is $34,840, the donor's adjusted basis ($34,400) plus part of the gift tax paid on the gift ($440).

Stock Acquired from a Decedent

If you acquire stock by inheritance, bequest, or devise, or from a decedent's estate, the basis to you is generally its fair market value at the date of the decedent's death, or at the alternate valuation date, if chosen for estate tax purposes.

Property decedent received as a gift. The above rule does not apply to appreciated property you or your spouse receive from a decedent if:

1) You or your spouse originally gave the property to the decedent after August 13, 1981,
2) The property was given within a year of the decedent's death, and
3) The death occurred after 1981.

In this situation, the basis in the property is the same as the decedent's basis in the property immediately before his or her death, rather than its fair market value. ***Appreciated property*** is any property whose fair market value on the day it was given to the decedent is more than its adjusted basis.

If the estate, or a trust of which the decedent was the grantor, sells the appreciated property and distributes the proceeds to the donor (or the donor's spouse), the estate's or trust's basis in the property is the same as the decedent's basis immediately before death.

Carryover basis. If you inherited property from someone who died after 1976 and before November 7, 1978, and you have received a copy of the completed Form 5970–A, *Election of Carryover Basis*, your basis in the property is the carryover basis as stated in the information that you received from the personal representative of the estate.

For more information concerning the basis of property acquired from a decedent, see Publication 551, *Basis of Assets*.

General rule for determining value of shares in a mutual fund. The fair market value of a share in a mutual fund acquired from a person who died after August 16, 1954, is the public redemption price (commonly known as the bid price) on the date of death, or alternate valuation date. If no public redemption price is quoted for the date of death (or alternate valuation date), use the last public redemption price quoted by the fund for the first day preceding the date of death (or alternate valuation date) for which there is a quoted price. If a dividend was declared before the date of death, and payable after that date, the dividend is added to the ex-dividend quotation (price quoted excluding the value of a pending dividend) to determine the share's fair market value.

Community property states. In community property states, you and your spouse generally are considered as each owning half the estate (excluding separate property). If one spouse dies after 1947 and at least half of the community interest is includible in the decedent's gross estate (whether or not the estate is required to file a return), the fair market value of the community property at the date of death becomes the basis of both halves of the estate.

For example, if the fair market value of the entire community interest in a mutual fund is $100,000, the basis of the surviving spouse's half of the shares is $50,000 and the basis of the other half to the decedent's heirs also is $50,000. See Publication 551, if the death occurred before 1948.

Adjusted Basis

The adjusted basis of stock is the original basis or cost, increased or reduced as described here.

Additions to basis. You may be required to include in your gross income, as undistributed capital gains, amounts allocated to you by the fund that you do not actually receive. Your basis in the fund is increased by the difference between the amount of undistributed capital gain and the amount of tax paid for you by the fund.

Reduction of basis. You must reduce the original basis by the amount you receive from the fund that represents a return of capital. Do not reduce your basis for distributions from the fund that are exempt-interest dividends.

The following worksheet is an example of how you can keep track of the adjusted basis of your mutual fund shares. Enter the cost per share when purchased and any adjustments to the basis when the adjustment occurs. Figure the adjusted basis when the shares are sold or redeemed.

Identifying Shares of Stock

If you can definitely identify within the fund the shares of stock you sold, the basis is the cost or other basis of those shares of stock. However, when a number of shares are acquired and sold at various times in different quantities and the shares you sell cannot be identified with certainty, the basis of the shares you sell is the basis of the securities acquired first.

Example. You bought 1,000 shares of stock in Fund A in 1970 for $10 a share. In January 1971 you bought another 2,000 shares for $11 a share. In July 1971 you gave your son 500 shares and in December 1972 you bought 1,000 shares for $9 a share. In April of last year you sold 1,300 shares. In no case were you able to identify the shares disposed of. The shares of stock you gave to your son had a basis of $5,000 (500 × $10). The basis of the 1,300 shares sold last year was $13,800 figured as follows:

500 shares (500 × $10) balance of stock bought in 1970	$ 5,000
800 shares (800 × $11) January 1971 purchase	8,800
Total basis of stock sold last year	$13,800

Average basis. You may choose to use the average basis for determining cost or other basis of shares you own in a mutual fund if you received the shares at various times and prices, and if you left the shares on deposit in an account handled by a custodian or agent who acquires or redeems those shares. Average basis is figured using either the ***double-category method*** or the ***single-category method.***

Gift shares. If your account includes shares that you received by gift after 1920, and the fair market value of the shares at the time of the gift was less than the donor's basis, special rules

Mutual Fund Record

Mutual Fund	Acquired [1]			Adjustments to Basis Per Share					Adjusted [2] Basis Per Share	Sold or Redeemed	
	Date	Number of Shares	Cost Per Share							Date	Number of Shares

[1] Include shares received from reinvestment of dividends.

[2] Cost plus or minus adjustments.

apply. To use the average basis, you must submit a statement with your initial choice to use one of the average basis methods. It must state that the basis used in figuring the average basis of the gift shares under either the double- or single-category method will be the fair market value at the time of the gift. This statement applies to gift shares you receive before and after making the choice, as long as the choice to use average basis is in effect. If you do not make this statement, you may not choose to use average basis for any account that contains gift shares you received after 1920.

Making the choice. You choose the average basis of mutual fund shares by clearly showing on your income tax return, for each year the choice applies, that an average basis was used in reporting gain or loss from the sale or transfer of the shares. You must specify whether the single-category method or the double-category method was used in determining average basis. This choice is effective until you revoke it. You must get permission from the Internal Revenue Service to revoke it.

Double-category method. Under the double-category method, all shares in an account at the time of each sale or transfer are divided into two categories.

For purposes of this discussion the categories are the long-term category and the short-term category. For 1985 each of these categories include stock depending on when the stock was acquired.

The ***long-term category*** includes:

1) Stock purchased before June 23, 1984, and held more than one year; and
2) Stock purchased after June 22, 1984, and held more than 6 months.

The ***short-term category*** includes:

1) Stock purchased before June 23, 1984, and held one year or less; and
2) Stock purchased after June 22, 1984, and held 6 months or less.

The cost or other basis of each share in a category is equal to the total cost or other basis of all shares in that category at the time of a sale or transfer, divided by the total number of shares in the category. You may specify, to the custodian or agent handling your account, from which category the shares are to be sold or transferred. The custodian or agent must confirm in writing your specification. If you do not specify or receive confirmation, you must first charge the shares sold against the long-term category.

Changing categories. After your holding period for a share of mutual fund stock is more than 6 months (one year), you must change that share from the short-term category to the long-term category. The basis of a share changed to the long-term category is its actual cost or other basis.

Shares sold or transferred from the short-term category are assumed to be those you purchased or acquired first. In this case, the basis of the shares not sold or transferred that are changed to the long-term category is the average basis of the shares in the short-term category at the time of the most recent sale or transfer from this category.

Single-category method. Under the single-category method, all shares are included in a single account. The cost or other basis of each share is the total cost or other basis of all shares in the account at the time of a sale or transfer, divided by the number of shares in the account. For purposes of determining the holding period, the shares sold or transferred are considered to be those shares acquired first.

Gains and Losses

You figure gain or loss on the sale, exchange, or redemption of your stock by comparing the amount you realize with the adjusted basis of your stock.

Gain. If the amount you realize is more than the adjusted basis of the stock, you have a gain. The gain is the difference between the amount realized and the adjusted basis.

Loss. If the adjusted basis of the stock is more than the amount you realize, you have a loss. The loss is the difference between the adjusted basis and the amount realized.

Adjusted basis is your original cost or other original basis adjusted for such things as return of capital distributions. See *Adjusted Basis*, discussed earlier.

Amount you realize from a sale, exchange, or redemption of your shares is the money and value of any property you receive for the shares disposed of, reduced by any cost you have in making the transfer.

Long-Term and Short-Term Gains and Losses

When you sell, exchange, or redeem your shares of mutual fund stock, you must determine whether the gain or loss is a short-term capital gain or loss or a long-term capital gain or loss. If you held your shares 6 months or less (one year or less if the stock was acquired before June 23, 1984), the sale or exchange results in a short-term capital gain or loss. If you held them more than 6 months (more than one year if the stock was acquired before June 23, 1984), the sale or exchange results in a long-term capital gain or loss.

Holding period. To find whether you held your shares more than 6 months (more than one year), begin counting on the day after the day you bought the shares. This same date of each succeeding month is the start of a new month regardless of the number of days in the month before. The day you dispose of the shares is also part of your holding period.

To determine your holding period for shares acquired other than by purchase, see Publication 550, *Investment Income and Expenses*.

Example 1. If you bought the shares on January 10, 1985, you start counting on January 11, and the 11th of each following month is the beginning of a new month. Therefore, if you sold the shares on June 11, 1985, your holding period would not be more than 6 months. If you sold them on June 12, 1985, your holding period would then be more than 6 months.

Example 2. You bought stock on June 22, 1984. You must hold the stock at least until June 23, 1985, to obtain long-term capital gain or loss treatment. The holding period of more than one year applies because the stock was purchased ***before*** June 23, 1984.

Reinvested dividends. If you participate in an automatic dividend reinvestment plan, each full share or fractional share is considered to have been purchased on the date that each share was purchased for you. Therefore, if you sell all or part of your mutual fund shares, you might have some short-term and some long-term gains and losses.

Certain short-term losses. Special rules may apply if you have a short-term loss on the sale of stock on which you received an exempt-interest dividend or a capital gain distribution.

Exempt-interest dividend. If you received exempt-interest dividends on mutual fund stock that you held for less than 31 days and sold at a loss, you may not claim the part of the loss that is equal to, or less than, the exempt-interest dividends. You report the rest of the loss as a short-term capital loss.

Example. On January 5 you bought a share of stock in a mutual fund for $10. On January 30 the mutual fund declared a dividend from tax-exempt interest of $1, which is not taxable to you. On February 4 you sold the share of stock for $8. You may deduct $1 as a short-term capital loss. The other $1 of the loss is not deductible.

Capital gain distribution. If you received, or were considered to have received, capital gain distributions on mutual fund stock bought on or after July 18, 1984, that you held for six months or less and sold at a loss, you must report as a long-term capital loss the part of the loss that is equal to, or less than, the capital gain distribution. There is an exception for losses on distributions of stock under a periodic redemption plan.

Example. On April 22 you bought a share of stock in a mutual fund for $20. On June 30 the mutual fund declared a capital gain dividend of $2 a share, which is taxed as a long-term capital gain. On July 5 you sold the share of stock for $17.50. You must report $2 of the loss as a long-term capital loss. The other 50¢ of the loss is a short-term capital loss.

How to Figure Gains and Losses

Separate your short-term gains and losses from your long-term gains and losses on all the shares of stock and other capital assets you sold or exchanged during the year. Then determine your net short-term gain or loss and your net long-term gain or loss.

Net short-term capital gains and losses are determined by adding the gains and losses separately in Part II of Schedule D (Form 1040) and subtracting the smaller total from the larger one. Enter the net short-term capital gain or loss on line 8 of Part II.

Net long-term capital gains and losses are determined by adding the gains and losses separately in Part III of Schedule D (Form 1040) and subtracting the smaller total from the larger one. Enter the net long-term capital gain or loss on line 19 of Part III.

In figuring the long-term capital gain, you should include on line 15, Part III of Schedule D (Form 1040) capital gain distributions received from mutual funds during the year. See *How to Report*, later.

The total net capital gain or loss is determined by combining the net short-term capital gain or loss with the net long-term capital gain or loss. Enter the result on line 20, Part IV of Schedule D (Form 1040).

Capital gain deduction. If your net long-term capital gain is more than your net short-term capital loss, or if you have no net short-term capital loss, you figure the amount of your deduction in Part IV of Schedule D (Form 1040). It generally is equal to 60% of your net long-term capital gain. The capital gain deduction may be subject to the alternative minimum tax. For more information, see Publication 909, *Alternative Minimum Tax*.

Capital losses. If you have a total net capital loss, you must first figure how much of the loss is deductible. Then you must figure how much of the loss you may deduct in the year of the loss and how much of it you carry over and use in future tax years.

Short-term deduction. Net short-term capital losses may be used to offset your income dollar for dollar.

Long-term deduction. Only 50% of a net long-term capital loss can be used to offset your income. It takes $6,000 of a net long-term capital loss to produce a $3,000 deduction.

Therefore, you have to figure out how much of your total net capital loss comes from a net long-term capital loss. Half that amount must be subtracted from the total net loss before it can be used to offset income.

Deductible capital loss. If you have only short-term gains and losses, your deductible loss is the same as your net short-term capital loss. If you have only long-term gains and losses, your deductible loss is half of your net long-term capital loss. If you have both short-term and long-term items, figure your deductible loss as follows:

1) If you have a net ***short-term capital loss*** and a net ***long-term capital gain***, your deductible loss is the excess of the loss over the gain.
2) If you have a net ***long-term capital loss*** and a net ***short-term capital gain***, your deductible loss is half the excess of the loss over the gain.
3) If you have both a net ***short-term capital loss*** and a net ***long-term capital loss***, your deductible loss is the total of the short-term loss plus half of the long-term capital loss.

Example 1. You have capital gains and losses for the year as follows:

	Short-term	Long-term
Gains	$ 700	$ 400
Losses	800	2,000

Your deductible capital loss is $900, which you figure as follows:

Short-term capital losses	$ 800	
Minus: Short-term capital gains	700	
Net short-term capital loss		$ 100
Long-term capital losses	$2,000	
Minus: Long-term capital gains	400	
Net long-term capital loss	$1,600	
Minus: Half of net long-term loss	800	800
Deductible capital loss		$ 900

Example 2. You have a net long-term capital loss of $1,600 and a net short-term capital gain of $450. Your net capital loss is $1,150 ($1,600 minus $450). Because all of this loss is from a net long-term capital loss, only 50% of it is deductible. Your deductible capital loss is $575 (half of $1,150).

Yearly limit. The amount of capital loss that you may deduct in any tax year is limited to one of the following amounts, whichever is less:

1) $3,000 ($1,500 if you are married and file a separate return), or
2) Your taxable income, figured without any capital gains or losses, minus the zero bracket amount. Do not take any deductions for personal exemptions when figuring this amount, or
3) Your deductible capital loss.

Capital loss carryovers. If your deductible capital losses are more than the yearly limit, you may carry over the excess to later years until it is completely used up. When carried over, the loss will keep its original character as long term or short term. Therefore, a long-term capital loss carried over from a previous year will offset long-term gains of the current year before it offsets short-term gains of the current year.

In determining the capital loss carryover, apply short-term losses first, even if they were incurred after a long-term loss. If after applying the short-term losses the capital loss limit has not been reached, then apply the long-term losses until you reach the limit. Since you may deduct only 50% of long-term losses, twice the amount needed to reach the limit represents the long-term loss used up in the year.

Example. On your 1985 return, your capital loss deduction limit is $3,000. You realized short-term losses of $400 and long-term losses of $6,500. Your carryover to 1986 is figured as follows:

1) Maximum amount of capital loss deduction	$3,000
2) Less: Short-term capital loss	400
3) Remaining available capital loss	$2,600
4) Long-term capital loss	$6,500
5) Less: Amount needed to reach $3,000 limit at 50% (Line 3, $2,600 × 2)	5,200
6) Long-term capital loss carryover to 1986	$1,300

Capital loss carryovers from separate returns must be combined if you file a joint return for the current year. But a capital loss carryover

from any joint return can be deducted only on the separate return of the spouse who actually had the loss.

Investment Expenses

You may deduct certain investment expenses if you itemize deductions. These expenses are deductible only if they relate directly to the income or to the income-producing property, and the income is taxable to you. If you, like most taxpayers, use the cash method of accounting, deduct these expenses in the year you pay them. If you use the accrual method of accounting, deduct them in the year you incur them. Enter these expenses on Schedule A (Form 1040).

Expenses and interest paid that are allocated to exempt-interest dividends. You may not deduct expenses that are for the collection or production of exempt-interest dividends. This includes interest you pay on money borrowed to buy or carry stock in a mutual fund that pays exempt-interest dividends. If the fund distributes both taxable and exempt-interest dividends, you may deduct the part of the interest that relates to the taxable (ordinary) dividends.

Limit on investment interest. There is a limit to the amount of interest you may deduct on money you borrowed to buy or carry property held for investment.

Your deduction for investment interest generally is limited to the sum of your net investment income, plus $10,000 ($5,000 if you are married filing separately). Use Form 4952, *Investment Interest Expense Deduction*, to figure your investment interest expense deduction. For more information, see Publication 550, *Investment Income and Expenses*.

Fees

The fee you pay to acquire shares of a mutual fund is not deductible. You add it to the cost of the shares.

Two other kinds of fees that might be paid by subscribers to sponsored investment plans are creation fees and custody fees.

Creation fee. This is a fee the custodian takes from your deposits and pays to the sponsor for its services in developing, selling, and administering a plan. It is a fee paid for the privilege of getting stock through the plan. This fee is a capital expense and must be added to the cost of the shares you get through the investment plan. You may not deduct it.

Custody fee. This is a deductible fee you pay for services performed by the custodian in holding the shares you acquire through the plan, collecting and reinvesting cash dividends, maintaining individual records, and providing you with detailed statements of your account. It is either a fixed percentage of each deposit or a specified annual percentage. You may deduct this fee on Schedule A (Form 1040).

How to Report

Your mutual fund reports its distributions to you, including amounts received and amounts allocated to you, on Form 1099–DIV, or on a substitute form containing substantially the same language. If the total distribution reported to you by the fund has only ordinary dividends, you report the entire amount on line 9a, Form 1040. Whether or not you must file separate schedules along with Form 1040 depends on the amount and nature of the income reported to you by the fund and other dividend income you receive.

Note. You may be able to file Form 1040A if you had no capital gain or return of capital distributions. For details, see the instructions for Form 1040A.

Distributions totaling $400 or less. (See the chart at the beginning of this publication.) If gross dividends and other distributions you received on mutual fund stock (including capital gain distributions and return of capital distributions), and from all other sources, total $400 or less, enter the total ordinary dividends (whether or not qualifying for the dividend exclusion) on line 9a, Form 1040. Enter any capital gain distributions directly on line 15, Part III of Schedule D (Form 1040). But, if you have no other Schedule D transactions (sales and exchanges of capital assets), you may enter your capital gain distributions, after deducting 60% as the capital gain deduction, on line 14, Form 1040. You need not file Schedule D.

If your fund reports that it paid or allocated to you a return of capital distribution, and you received $400 or less total dividends and other stock distributions, you ordinarily do not have to report the nontaxable distribution on your income tax return. To the extent that the return of capital distribution, when added to all such distributions received in past years, is more than the basis of your stock, the excess is a capital gain even though the paying corporation called it a nontaxable distribution. See *Return of Capital (Nontaxable) Distributions*, discussed earlier.

Distributions over $400. If gross dividends and other distributions you receive as a shareholder (including capital gain distributions and return of capital distributions) are more than $400, you must complete Part II of Schedule B (Form 1040). Following is a line-by-line explanation of Part II, Schedule B.

Note. Wherever Form 1099–DIV appears below, you should be aware that the official Form 1099–DIV or a substitute form containing substantially the same language may be used.

Line 4—Dividend income. List on this line the name of the fund paying the distribution and the gross amount of dividends and other distributions you received as a shareholder, including capital gain distributions and return of capital distributions. If the fund used Form 1099–DIV to report distributions to you, the amount you should report is in box 1 of Form 1099–DIV.

Line 5—Total all entries in line 4 and enter this figure on line 5. This figure is the total of your gross distributions.

Line 6—Capital gain distributions. Enter on this line all capital gain distributions. The amount on this line also must be included on lines 4 and 5 and reported separately on line 15, Part III of Schedule D (Form 1040), or include 40% of this amount on line 14 (Form 1040) if you have no other Schedule D transactions.

On Form 1099–DIV, capital gain distributions are shown in box 5.

Line 7—Nontaxable distributions. Enter on this line the part of the amount included on line 5 that represents a return of capital.

If the total amounts received as a return of capital, when added to all other similar amounts received in the past, is more than the cost (or other basis) of your stock, report the excess on Schedule D (Form 1040). See *Return of Capital (Nontaxable) Distributions*, discussed earlier.

On Form 1099–DIV, nontaxable distributions (usually a return of capital) are shown in box 6.

Line 8—No entry is made on this line for distributions from a mutual fund.

Line 9—Total. Add lines 6, 7, and 8 and enter the total on line 9.

Line 10—Dividends before exclusion. Subtract the amount on line 9 from the amount on line 5. This is your total taxable dividends before the dividend exclusion. Enter this figure on line 9a, Form 1040.

Exclusion—line 9b, Form 1040. The dividend exclusion may be claimed whether or not you are required to file Schedule B (Form 1040).

If the mutual fund used Form 1099–DIV to report distributions to you, your dividends qualifying for the exclusion are in box 2. In addition, if you receive qualifying dividends from other sources, you must consider that income along with the qualifying dividends you received from your mutual fund to determine the amount of your maximum dividend exclusion. See *Dividend exclusion*, earlier, for the amount that you can exclude.

Comprehensive Example

James and Mary Jones, a married couple, file a joint return for calendar year 1985, and decide not to itemize their deductions. However, they donate $100 to a charitable organization, but can deduct only $50 because they do not itemize. During the year James received gross wages of $16,000.

James and Mary received $25 in interest income from their joint savings account in a commercial bank.

They are joint stockholders in Green Publishing Company and received $250 in ordinary dividends.

They also are joint shareholders in Mutual Fund A. They purchased 50 shares for $1,000 on January 4, 1985. James and Mary have requested that the fund reinvest all of their distributions back into the fund. After the close of the year the fund sent them Form 1099–DIV showing the distributions that were reinvested for them. (See Form 1099–DIV.)

Form 1040. James and Mary fill in the requested information at the top of Form 1040, including Filing Status and Exemptions. (See illustration.) On line 7, they enter James's salary of $16,000. On line 8, they enter $25 interest income. Since they have gross dividends and other distributions on stock of more than $400, they must fill out Part II, Schedule B (Form 1040), before going on to line 9a, Form 1040.

Schedule B (Form 1040). On line 4, Part II of Schedule B (Form 1040), James and Mary list their $250 ordinary dividends from Green Publishing Company and their $200 gross distributions from Mutual Fund A (from box 1, Form 1099–DIV). They enter the total $450 on line 5.

On line 6, they enter the $25 listed in box 5 of Form 1099–DIV as *Capital gain distributions*.

On line 7, they enter the $5.60 listed in box 6 of Form 1099–DIV as *Nontaxable distributions*.

They add lines 6, 7, and 8 together and enter the total on line 9. They subtract the amount on line 9 from the amount on line 5 and enter the result on line 10. This amount is their dividends before exclusion. They enter it on line 9a, Form 1040.

Dividend exclusion. James and Mary may exclude from gross income up to $200 of qualifying dividends that they receive during the year. They enter this $200 amount on line 9b, Form 1040, and subtract it from line 9a. The result is their taxable dividends and is entered on line 9c.

Line 14, Form 1040. If James or Mary had made any sales or exchanges of capital assets, they would be required to file a Schedule D. They would enter the capital gain distribution of $25 (line 6, Schedule B) on line 15, Schedule D.

However, in this example, they made no other sales or exchanges of capital assets during the year, so they need not file this schedule. They enter $10 (40% of $25) on line 14, Form 1040.

Complete Form 1040. James and Mary add lines 7 through 22 and enter the total on line 23. Now they are ready to figure their adjusted gross income and tax liability.

Basis. During the calendar year, the return of capital distribution from Mutual Fund A changed the basis in the shares that James and Mary held at that time. Therefore, they should figure their current basis in their personal records. This figure will be needed when they sell or exchange their shares.

The cost basis in Mutual Fund A shares purchased by James and Mary at the beginning of the year was $20 a share. The basis of shares purchased during the year is $25 a share. The return of capital of $5.60 (listed in box 6 of Form 1099–DIV as *Nontaxable distributions*) received during the year reduces their basis in the shares.

James and Mary also requested that all distributions to which they were entitled be reinvested in the fund. Therefore, the fund used their total distributions of $200 ($50 a quarter) to buy additional shares.

The net effect on their investment in Mutual Fund A is shown on the worksheet.

☐ CORRECTED

PAYER'S name, street address, city, state, and ZIP code	1 Gross dividends and other distributions on stock	OMB No.1545-0110	**Dividends and Distributions**
Mutual Fund A 100 Park Road Parktown, NJ 23202	$200.00	**1985**	
	2 Dividends qualifying for exclusion $169.40	Statement for Recipients of	
	3 Dividends not qualifying for exclusion	4 Federal income tax withheld	**Copy B For Recipient**
PAYER'S Federal identification number: 01-0001001 / RECIPIENT'S identification number: 000-00-0000			This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty will be imposed on you if this dividend income is taxable and the IRS determines that it has not been reported.
RECIPIENT'S name (first, middle, last) James and Mary Jones	5 Capital gain distributions $25.00	6 Nontaxable distributions (if determinable) $5.60	
Street address 3702 Maple Road	7 Foreign tax paid	8 Foreign country or U.S. possession	
City, state, and ZIP code Hometown, VA 22000	**Liquidation Distributions**		
Account number (optional)	9 Cash	10 Noncash (Fair market value)	

Form **1099-DIV** Department of the Treasury - Internal Revenue Service

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Form 1040 — U.S. Individual Income Tax Return 1985

Department of the Treasury—Internal Revenue Service

For the year January 1–December 31, 1985, or other tax year beginning , 1985, ending , 19 — OMB No. 1545-0074

Use IRS label. Otherwise, please print or type.

Your first name and initial (if joint return, also give spouse's name and initial)	James and Mary
Last name	Jones
Your social security number	000 00 0000
Present home address (number and street, including apartment number, or rural route)	3702 Maple Road
Spouse's social security number	000 00 1000
City, town or post office, state, and ZIP code	Hometown, VA 22000
Your occupation	Electrician
Spouse's occupation	Housewife

Presidential Election Campaign — Do you want $1 to go to this fund? Yes [X] No [ ] — If joint return, does your spouse want $1 to go to this fund? Yes [X] No [ ] — Note: Checking "Yes" will not change your tax or reduce your refund.

For Privacy Act and Paperwork Reduction Act Notice, see instructions.

Filing Status (Check only one box.)

1 [ ] Single
2 [X] Married filing joint return (even if only one had income)
3 [ ] Married filing separate return. Enter spouse's social security no. above and full name here.
4 [ ] Head of household (with qualifying person). (See page 5 of instructions.) If the qualifying person is your unmarried child but not your dependent, write child's name here.
5 [ ] Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 6 of instructions.)

Exemptions (Always check the box labeled Yourself. Check other boxes if they apply.)

6a [X] Yourself [ ] 65 or over [ ] Blind — Enter number of boxes checked on 6a and b ▶ 2
b [X] Spouse [ ] 65 or over [ ] Blind
c First names of your dependent children who lived with you — Enter number of children listed on 6c ▶
d First names of your dependent children who did not live with you (see page 6). (If pre-1985 agreement, check here ▶ [ ]) — Enter number of children listed on 6d ▶
e Other dependents:

(1) Name	(2) Relationship	(3) Number of months lived in your home	(4) Did dependent have income of $1,040 or more?	(5) Did you provide more than one-half of dependent's support?

Enter number of other dependents ▶
f Total number of exemptions claimed (also complete line 36). — Add numbers entered in boxes above ▶ 2

Income (Please attach Copy B of your Forms W-2, W-2G, and W-2P here. If you do not have a W-2, see page 4 of instructions.)

7	Wages, salaries, tips, etc. (Attach Form(s) W-2.)	7	16,000 00
8	Interest income (also attach Schedule B if over $400)	8	25 00
9a	Dividends (also attach Schedule B if over $400) 419 40		
b	9b Exclusion 200 00		
c	Subtract line 9b from line 9a and enter the result	9c	219 40
10	Taxable refunds of state and local income taxes, if any, from the worksheet on page 9 of instructions.	10	
11	Alimony received	11	
12	Business income or (loss) (attach Schedule C)	12	
13	Capital gain or (loss) (attach Schedule D)	13	
14	40% of capital gain distributions not reported on line 13 (see page 9 of instructions)	14	10 00
15	Other gains or (losses) (attach Form 4797)	15	
16	Fully taxable pensions, IRA distributions, and annuities not reported on line 17 (see page 9)	16	
17a	Other pensions and annuities, including rollovers. Total received 17a		
b	Taxable amount, if any, from the worksheet on page 10 of instructions	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	18	
19	Farm income or (loss) (attach Schedule F)	19	
20a	Unemployment compensation (insurance). Total received 20a		
b	Taxable amount, if any, from the worksheet on page 10 of instructions	20b	
21a	Social security benefits (see page 10). Total received 21a		
b	Taxable amount, if any, from worksheet on page 11. (Tax-exempt interest)	21b	
22	Other income (list type and amount—see page 11 of instructions)	22	
23	Add lines 7 through 22. This is your total income ▶	23	16,254 40

Please attach check or money order here.

Adjustments to Income (See instructions on page 11.)

24	Moving expense (attach Form 3903 or 3903F)	24	
25	Employee business expenses (attach Form 2106)	25	
26	IRA deduction, from the worksheet on page 12	26	
27	Keogh retirement plan deduction	27	
28	Penalty on early withdrawal of savings	28	
29	Alimony paid (recipient's last name and social security no.)	29	
30	Deduction for a married couple when both work (attach Schedule W)	30	
31	Add lines 24 through 30. These are your total adjustments ▶	31	

Adjusted Gross Income

32	Subtract line 31 from line 23. This is your adjusted gross income. If this line is less than $11,000 and a child lived with you, see "Earned Income Credit" (line 59) on page 16 of instructions. If you want IRS to figure your tax, see page 13 of instructions ▶	32	16,254 40

Form 1040 (1985) — Page 2

Tax Computation (See instructions on page 13.)

33	Amount from line 32 (adjusted gross income)	33	16,254 40
34a	If you itemize, attach Schedule A (Form 1040) and enter the amount from Schedule A, line 26. Caution: If you have unearned income and can be claimed as a dependent on your parents' return, check here ▶ [ ] and see page 13 of instructions. Also see page 13 if you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien.	34a	
b	If you do not itemize but you made charitable contributions, enter your cash contributions here. (If you gave $3,000 or more to any one organization, see page 14.) 34b 100 00		
c	Enter your noncash contributions (you must attach Form 8283 if over $500) 34c -0-		
d	Add lines 34b and 34c. Enter the total 34d 100 00		
e	Divide the amount on line 34d by 2. Enter the result here	34e	50 00
35	Subtract line 34a or line 34e, whichever applies, from line 33	35	16,204 40
36	Multiply $1,040 by the total number of exemptions claimed on line 6f (see page 14)	36	2,080 00
37	**Taxable income.** Subtract line 36 from line 35. Enter the result (but not less than zero)	37	14,124 40
38	Enter tax here. Check if from [X] Tax Table, [ ] Tax Rate Schedule X, Y, or Z, or [ ] Schedule G	38	1,407 00
39	Additional taxes. (See page 14 of instructions.) Enter here and check if from [ ] Form 4970, [ ] Form 4972, or [ ] Form 5544	39	
40	Add lines 38 and 39. Enter the total ▶	40	1,407 00

Credits (See instructions on page 14.)

41	Credit for child and dependent care expenses (attach Form 2441) 41		
42	Credit for the elderly and the permanently and totally disabled (attach Schedule R) 42		
43	Residential energy credit (attach Form 5695) 43		
44	Partial credit for political contributions for which you have receipts 44		
45	Add lines 41 through 44. These are your total personal credits	45	
46	Subtract line 45 from line 40. Enter the result (but not less than zero)	46	1,407 00
47	Foreign tax credit (attach Form 1116) 47		
48	General business credit. Check if from [ ] Form 3800, [ ] Form 3468, [ ] Form 5884, [ ] Form 6478 48		
49	Add lines 47 and 48. These are your total business and other credits	49	
50	Subtract line 49 from line 46. Enter the result (but not less than zero) ▶	50	1,407 00

Other Taxes (Including Advance EIC Payments)

51	Self-employment tax (attach Schedule SE)	51	
52	Alternative minimum tax (attach Form 6251)	52	
53	Tax from recapture of investment credit (attach Form 4255)	53	
54	Social security tax on tip income not reported to employer (attach Form 4137)	54	
55	Tax on an IRA (attach Form 5329)	55	
56	Add lines 50 through 55. This is your total tax ▶	56	1,407 00

Payments (Attach Forms W-2, W-2G, and W-2P to front.)

57	Federal income tax withheld 57 1,200 00		
58	1985 estimated tax payments and amount applied from 1984 return 58		
59	Earned income credit (see page 16) 59		
60	Amount paid with Form 4868 60		
61	Excess social security tax and RRTA tax withheld (two or more employers) 61		
62	Credit for Federal tax on gasoline and special fuels (attach Form 4136) 62		
63	Regulated investment Company credit (attach Form 2439) 63		
64	Add lines 57 through 63. These are your total payments ▶	64	1,200 00

Refund or Amount You Owe

65	If line 64 is larger than line 56, enter amount OVERPAID ▶	65	293 00
66	Amount of line 65 to be REFUNDED TO YOU ▶	66	293 00
67	Amount of line 65 to be applied to your 1986 estimated tax ▶ 67		
68	If line 56 is larger than line 64, enter AMOUNT YOU OWE. Attach check or money order for full amount payable to "Internal Revenue Service." Write your social security number and "1985 Form 1040" on it ▶	68	

Check ▶ [ ] if Form 2210 (2210F) is attached. See page 17. Penalty: $

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

James Jones — 2/18/86 — Mary Jones

Your signature — Date — Spouse's signature (if filing jointly, BOTH must sign)

Paid Preparer's Use Only

Preparer's signature — Date — Check if self-employed [ ] — Preparer's social security no.

Firm's name (or yours, if self-employed) and address — E.I. No. — ZIP code

Schedules A&B (Form 1040) 1985 **Schedule B—Interest and Dividend Income** 08 OMB No. 1545-0074 Page 2

Name(s) as shown on Form 1040 (Do not enter name and social security number if shown on other side.) | Your social security number

James and Mary Jones | 000 00 0000

Part I Interest Income

(See Instructions on pages 8 and 22.)

Also complete Part III.

If you received more than $400 in interest income, you must complete Part I and list ALL interest received. If you received interest as a nominee for another, or you received or paid accrued interest on securities transferred between interest payment dates, see page 22.

Interest income		Amount
1 Interest income from seller-financed mortgages. (See Instructions and show name of payer.) ▶	1	
2 Other interest income (list name of payer) ▶	2	
3 Add the amounts on lines 1 and 2. Write the total here and on Form 1040, line 8 ▶	3	

Part II Dividend Income

(See Instructions on pages 8 and 22.)

Also complete Part III.

If you received more than $400 in gross dividends and other distributions on stock, or you are electing to exclude qualified reinvested dividends from a public utility, complete Part II. If you received dividends as a nominee for another, see page 23.

Dividend income			Amount
4 Dividend income (list name of payer—include on line 4 capital gain distributions, nontaxable distributions, etc.) ▶ Green Publishing Co.		4	250 00
Mutual Fund A			200 00
5 Add the amounts on line 4. Write the total here		5	450 00
6 Capital gain distributions. Enter here and on line 15, Schedule D.*	6 25 00		
7 Nontaxable distributions. (See Schedule D Instructions for adjustment to basis.)	7 5 60		
8 Exclusion of qualified reinvested dividends from a public utility. (See page 23 of Instructions.)	8		
9 Add the amounts on lines 6, 7, and 8. Write the total here		9	30 60
10 Subtract line 9 from line 5. Write the result here and on Form 1040, line 9a ▶		10	419 40

*If you received capital gain distributions for the year and you do not need Schedule D to report any other gains or losses, do not file that schedule. Instead, enter 40% of your capital gain distributions on Form 1040, line 14.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 23.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.	Yes	No
11 At any time during the tax year, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 23 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.) If "Yes," write the name of the foreign country ▶		X
12 Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520-A, or 926		X

Mutual Fund Record

Mutual Fund	Acquired			Adjustments to Basis[1] Per Share					Adjusted Basis Per Share	Sold or Redeemed	
	Date	Number of Shares	Cost Per Share							Date	Number of Shares
Mutual Fund A	1/4/85	50	20	12/31/85 (.10)							
"	3/29/85	2	25	12/31/85 (.10)							
"	6/28/85	2	25	12/31/85 (.10)							
"	9/30/85	2	25	12/31/85 (.10)							
"	12/31/85	2	25								

[1] The nontaxable distribution ($5.60) is allocated to the shares owned before the reinvestment of the last dividend.

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